

PUBLIC UTILITIES COMMISSION

ZONE OF REASONABLENESS

Frequently Asked Questions*

- 1. What is the Zone of Reasonableness (“Zone”) concept of ratemaking implemented by the Public Utilities Commission (“Commission”) in Decision and Order No. 20704, issued in Docket No. 03-0245, on December 5, 2003?**

The Zone concept of ratemaking is intended to streamline the traditional ratemaking proceeding wherein an individual motor carrier or a tariff agent representing its member motor carriers, such as the Western Motor Tariff Bureau, Inc. (“WMTB”), must prove that the proposed rates are just and reasonable. Under the Zone, applications for rate increases and decreases that fall within the parameters of the Zone are automatically deemed just and reasonable and, thus, need not be supported by detailed financial information. The concept presumes that competition between motor carriers should control excessive rates.

- 2. When will the Zone concept of ratemaking take effect?**

The Zone will take effect on January 1, 2004.

- 3. Is the Zone concept of ratemaking a permanent change in how the Commission reviews motor carrier applications for rate increases and decreases?**

No. The Zone is a one-year pilot program that will be in effect from January 1, 2004 through December 31, 2004.

- 4. Are there other ratemaking concepts, currently in effect, that are similar to the Zone?**

Yes. At the federal level, Matson Navigation Company and Horizon Lines (fna, CSX), both interstate water carriers, can file with the Federal Maritime Commission for a rate increase of 7.5 per cent above or a rate decrease of 10 per cent below the rate in effect one year before the effective date of the proposed rate change. Further, interstate water carriers may adjust the range of the Zone by the percentage change in the Producer Price Index.

At the state level, Young Brothers, Limited, an interisland water carrier of property regulated by the Commission is limited to annual rate increases of 5.5 per cent or annual rate decreases of 10 per cent.

5. Why did the Commission implement the Zone?

The Commission implemented the Zone to streamline the ratemaking process by easing the motor carriers' burden of proof and providing motor carriers with timely rate relief and flexibility.

6. What is the WMTB?

The WMTB is a statewide tariff agency comprised of motor carriers of property and passengers. WMTB, on behalf of its member motor carriers, files tariffs and tariff revisions with the Commission. The Hawaii State Certified Common Carriers Association, Inc. ("HSCCCA") is a similar tariff agency that limits its membership to passengers carriers authorized in the 1-to-7 and 8-to-25 passenger classifications on the island of Oahu.

7. Is it a requirement that all motor carriers of property and passengers must be members of the WMTB or the HSCCCA to qualify for rate changes under the Zone?

No. Rate changes under the Zone are available to all motor carriers.

8. What is the range of rate increases and decreases authorized under the Zone?

Under the Zone, a motor carrier or tariff agent may request rate increases of up to 10 per cent above the motor carrier's base rate, and for rate decreases of 10 per cent below the motor carrier's base rate.

9. What is a motor carrier's base rate?

A motor carrier's base rate is the rate in effect as of December 31, 2003. For new carriers receiving Commission authority to operate subsequent to December 31, 2003, the base rate is the rate initially approved by the Commission.

10. Were the existing fuel surcharges rolled into the carrier's base rates?

Yes. The existing fuel surcharges were terminated and the fuel surcharge percentages existing at the time of termination were rolled into the base rates. Tariff agents and independent motor carriers assessing a fuel surcharge at the time of termination must file their new base rates with the Commission before December 31, 2003, unless given an extension.

11. Are the rate increases and decreases under the Zone limited to across-the-board changes?

No. Rate increases and decreases are applicable to a single rate, group of rates, or across-the-board rates for motor carriers.

12. How many times can a rate be increased or decreased under the Zone?

A rate can be increased or decreased any number of times. The limiting factor is that, at any given time, the rate cannot exceed 10 per cent above the motor carrier's base rate and cannot decrease by more than 10 per cent below the motor carrier's base rate.

13. In past rate proceedings, independent motor carriers and their tariff agent were required to provide detailed financial information to support their applications for rate increases. Does the Zone require a motor carrier or a tariff agent to support the proposed rate change with detailed financial information?

No. Rate changes within the Zone need not be supported with detailed financial information.

14. Can an independent motor carrier or a tariff agent file for a rate increase or decrease that is greater than 10 per cent?

Yes. However, in that situation, the tariff agent or independent motor carrier will be required to carry the burden of proving that the proposed rate change is just and reasonable, through the filing of detailed financial information.

15. Can a protest be filed against a rate filing that falls within the parameters of the Zone concept of ratemaking?

Yes. The provisions of Hawaii Revised Statutes, chapter 271 and Hawaii Administrative Rules 6-51, 6-62, and 6-63, remain in effect.

16. What happens to the Zone at the end of the one-year pilot program?

Prior to December 31, 2004, the Commission intends to evaluate: (1) whether the Zone accomplished its goal of providing timely rate relief; (2) whether the rate filings during the pilot program were reasonable; (3) whether the Zone should be terminated or continued; and (4) if the Zone is continued, what modifications to the Zone should be implemented.

If you have any further questions regarding the Zone, please call Paul Nakayama at the Commission's Honolulu Office at (808) 586-3755. You can also e-mail Mr. Nakayama at Paul.M.Nakayama@hawaii.gov.

- * This "Frequently Asked Questions" ("FAQs") is intended for informational purposes only, for the public convenience, and should not be construed as an official document or legal authority issued by the Commission. If there is any conflict between the FAQs and the applicable Decisions and Orders, the Decisions and Orders shall govern.